

EPL Intermediate, Inc. Announces Results for the 13 Weeks and 39 Weeks Ended September 26, 2007
2007-11-08

El Pollo Loco reported operating revenues for the 13-week third quarter ended September 30, 2007 of \$72.3 million, which is an increase of \$6.0 million, or 9.1%, over operating revenues for the 13-week third quarter ended September 30, 2006 of \$66.3 million. Operating revenues include sales at company-operated stores and franchise revenues.

Same store sales for the system, which includes sales from both company-operated and franchised stores, increased 2.2% in the third quarter of fiscal 2007, with company-operated restaurant same store sales increasing 1.7% and franchise restaurant same store sales increasing 2.5%. Restaurants enter the comparable restaurant base for same-store sales the first full week after that restaurant's 15-month anniversary. The positive impact from a price increase taken at the beginning of the year and an increase in average check more than compensated for transaction declines in the third quarter.

During the third quarter, El Pollo Loco sold eight company-owned restaurants in Southern California to existing franchisees in exchange for \$7.5 million in cash. With respect to this transaction, leasehold and equipment assets were reduced by \$1.6 million, goodwill was reduced by \$8.8 million, in accordance with Statement of Accounting Standards 142, and there was a related liability reduction of \$0.1 million. This resulted in a loss on sale of restaurants of \$2.8 million. The Company used the cash from the sale of the restaurants to acquire three high volume franchise restaurants in Las Vegas for \$8.5 million. With this acquisition, the company now has 11 company-owned restaurants in Las Vegas.

Changes in operating expenses in the third quarter include:

payroll and benefit expenses that increased \$2.0 million, or 13.0%, to \$17.5 million for the 13 weeks ended September 30, 2007 from \$15.5 million for the 13 weeks ended September 30, 2006. As a percentage of restaurant revenue, these costs increased 0.9% to 26% in 2007 from 25.1% for the 2006 period. This increase is primarily attributed to an increase in spending on manager training and the minimum wage increase.

a 0.4% increase in restaurant other operating expense (which includes utilities, repair and maintenance, advertising, property taxes, occupancy and other operating expenses) as a percentage of restaurant revenue, resulting from a 0.4% increase in occupancy costs as a percentage of revenue (from the annual amortization of unfavorable leasehold interest liability and higher rent expense) and a 0.4% increase in repair and maintenance costs as a percentage of revenue due to the higher general run rate of equipment repairs and refrigeration. The latter was in response to increased heat load during the period. The increase in restaurant other operating expense was partially offset by a 0.5% decrease in advertising expense as a percentage of revenue. Advertising expense each quarter may be above or below our planned annual rate of approximately 4% of revenue, depending on timing of marketing promotions and the relative weights of media spending.

a \$3.3 million increase in general and administrative expenses, attributed primarily to a \$2.8 million loss recognized in the 2007 period from the sale of eight company restaurants that did not occur in the 2006 period, and an increase of \$0.6 million in legal fees in the 2007 period, partially offset by a decrease of \$0.3 million in corporate meetings expense due to timing.

Operating income decreased \$2.9 million, or 31.8%, to \$6.2 million for the third quarter of fiscal 2007 from \$9.1 million for the third quarter of fiscal 2006 due to the factors described above. Without the loss on sales of restaurants, operating income for the third quarter of fiscal 2007 would have been \$9.0 million.

Interest expense, net of interest income, increased \$0.2 million, or 2.7%, to \$7.4 million for the third quarter of 2007 from \$7.2 million for the prior year quarter. Average debt balances for the third quarter of 2007 increased to \$265.0 million compared to \$258.4 million for the third quarter of 2006, and average interest rate decreased to 10.62% for the 2007 period compared to 10.81% for the 2006 period.

Our provision for income taxes consisted of income tax expense of \$2.8 million and \$1.3 million for the 13-week periods ended September 30, 2007 and 2006, respectively. There was a large gain on sale for tax purposes related to the eight restaurants sold in the third quarter that created additional income tax expense as most of the goodwill written off for book purposes was not deductible for tax purposes.

As a result of the factors above, there was a net loss for the third quarter of fiscal 2007 of \$4.0 million, compared with net income of \$0.5 million for the prior year quarter.

Operating revenues for the 39-week period ended September 30, 2007 were \$208.8 million, which was an increase of \$13.5 million, or 6.9%, over operating revenues for the 39 weeks ended September 30, 2006 of \$195.3 million.

Same store sales for the system increased 2.6% for the 39 weeks ended September 30, 2007, with company-operated restaurant same store sales increasing 1.7% and franchise restaurant same store sales increasing 3.4%.

Operating income for the 39 weeks ended September 30, 2007 was \$22.6 million, which was a decrease of \$2.7 million, or 10.8%, over operating income of \$25.3 million for the 39 weeks ended September 30, 2006.

Interest expense, net of interest income, increased \$0.5 million, or 2.2%, to \$21.9 million for the 39 weeks ended September 30, 2007 from \$21.4 million for the 39 weeks ended September 30, 2006. Average debt balances for the 2007 period increased to \$260.7 million compared to \$259.4 million for the 2006 period, and average interest rate increased to 10.63% for

the 2007 period compared to 10.57% for the 2006 period.

Our provision for income taxes consisted of income tax expense of \$3.1 million and \$2.1 million for the 39-week periods ended September 30, 2007 and 2006, respectively.

There was a net loss for the 39 weeks ended September 30, 2007 of \$2.4 million, a decrease of \$4.2 million from net income for the 39 weeks ended September 30, 2006 of \$1.8 million.

Commenting on the year to date 2007 results, Stephen Carley, president and CEO of El Pollo Loco, Inc., shared, 'We continued to achieve positive system-wide sales growth in the third quarter of 2007 in spite of intense competitive activity and a continuation of what appears to be a general sales softness in the restaurant industry. Midway through the third quarter, we launched two new value-priced menu items, a crunchy chicken taco and a soft chicken taco. Since their July 30, 2007 launch, the tacos have achieved the highest new product customer trial of any product we have introduced in the past seven years.'

Mr. Carley continued, 'Regarding new store growth, El Pollo Loco opened its first two franchise restaurants in the greater Atlanta area during the third period. A third restaurant opened in Atlanta after the end of the third quarter and several more are scheduled to open in the months ahead. Additionally, our second New England area franchise restaurant, the first in Massachusetts, opened November 6, 2007. We still forecast to open approximately 10 company and 20 franchised restaurants in fiscal 2007. Next year, we will continue our expansion in new markets across the nation. While we expect some pressure on commodity costs in 2008, we believe that any price increases taken will help protect our margins.'

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